

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6377

BILL NUMBER: HB 1261

DATE PREPARED: Jan 6, 2002

BILL AMENDED:

SUBJECT: Health Insurance Premium Deduction.

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FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 2002	FY 2003	FY 2004
State Revenues		(2,500,000)	
State Expenditures			
Net Increase (Decrease)		(2,500,000)	

Summary of Legislation: This bill provides an individual adjusted gross income tax deduction for insurance premiums paid for medical care coverage by sole proprietors, S corporation shareholders, or partners to the extent the premiums are not deductible under the federal Internal Revenue Code.

Effective Date: January 1, 2002 (retroactive).

Explanation of State Expenditures: There will be some administrative expenses for the Department of State Revenue to revise tax forms, instructions, and computer programs. These expenses will be covered under the Department's existing budget.

Explanation of State Revenues: *The deduction for insurance premiums paid by sole proprietors, S corporation shareholders, or partners which are not deductible under the federal Internal Revenue Code (IRC) will reduce revenue collections by \$2.5 M in FY 2003.*

The IRC deduction for these expenses has increased over the last few years. The percentages of premiums paid by the self-employed person eligible for the federal deduction are outlined in the following table.

Tax Year	Percent of Premiums Deductible
2001	60%
2002	70%
2003 & Beyond	100%

This bill would allow a state deduction in the amount which is not covered under the federal deduction. (This is because the federal deduction flows through to the calculation of federal adjusted gross income which is the starting point for calculating Indiana income taxes.) Under the current federal schedule, the new state deduction is reported below along with the corresponding revenue loss. Beginning in tax year 2003, this deduction would not generate any additional revenue loss since the federal deduction is set at 100% of the medical care insurance expenses. This deduction is effective for tax year 2002 and would affect revenue collections in FY 2003.

Tax Year	Current Federal Deduction	New State Deduction	Tax Year Revenue Loss
2002	70%	30%	(\$2.5 M)
2003	100%	0	0

Individual Income Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties with a local option income tax will experience a minimal loss of revenue as a result of this deduction.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Joint Committee on Taxation; Statistics of Income Bulletin, Summer 2000, Internal Revenue Service.